



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 20, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center today noted that a low-pressure system southwest of the Cape Verde Islands has strengthened overnight as shower and thunderstorm activity has become better organized and forecasters expected that there was a 40% chance it would become a tropical cyclone within the next 48 hours. Various long range track guidance models though still do not appear to see this potential storm as a threat to the U.S. mainland, especially the Gulf of Mexico coast line. Forecasters also noted that an area of disorganized showers and thunderstorms are associated with a westward moving tropical wave over the Yucatan that has a slight chance of forming into a tropical cyclone when it emerges back over the Bay of Campeche over the next couple of days.

Generator Problems

ERCOT – Luminant said it planned to restart its 750 Mw coal fired Unit #1 at the Martin Lake steam plant late Friday or early Saturday. The unit has been off line since August 19th to repair a tube leak.

Unit #4 at the coal fired Sandow power plant is expected to be taken off line late Friday night for repairs on an electrostatic precipitator.

NPCC- OPG's 490 Mw coal fired Nanticoke Unit #1 was shut early Friday for maintenance.

OPG's 494 Mw Units #2 and #4 at the Lambton coal fired power plant returned to service early Friday. Unit #2 has been off line since August 19th and Unit #4 has been of line since August 16th.

OPG's 515 Mw Pickering #1 nuclear unit returned to service this morning. The unit had been off line since August 16th.

The NRC reported this morning that some 93,075 Mw of nuclear generation was operating today, down 0.2% from yesterday and down 1.1% from the same day a year ago.

Baker Hughes reported today that the number of drilling rigs searching for natural gas in the United States fell by seven rigs in the current week from last week when it set a seven-week high. But the number of horizontal rigs, the type used for extracting gas from shale areas, hit a new record high for the third consecutive week, climbing by 10 rigs to 895.

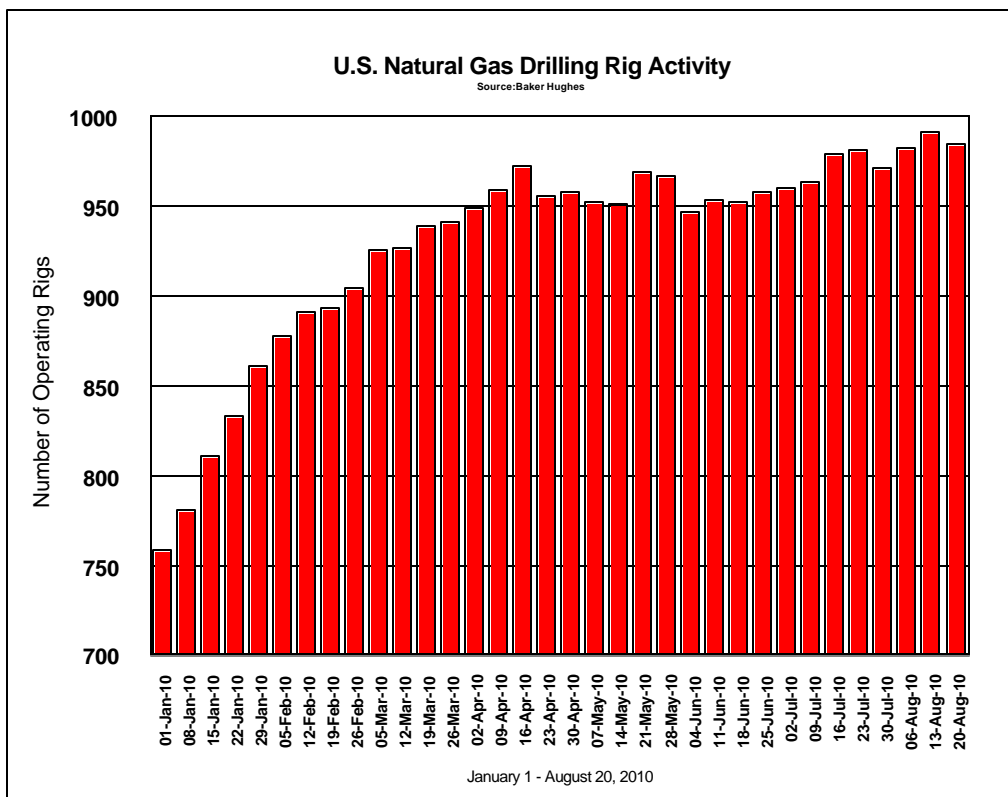
The Nigerian LNG tanker the LNG Imo, which had been scheduled to arrive at Britain's Dragon import terminal on August 23rd has been re-routed to Brazil according to market sources. Terminal operator BG Group has also offered the August 223rd berthing slot at Dragon up for auction to third parties. Petrobras was believed to be the buyer of the cargo. It appears that the slide in UK prices as a result of a record amount of LNG stocks in Britain has made the British market less of an attractive export destination for spot LNG cargoes as it has been in recent months.

Nigerian LNG said today that it is looking to raise \$2 billion via a corporate style 7-year loan from international banks by year-end. The company's \$1 billion project financing accord arranged back in 2002, is due to run out as just one \$80 million repayment is left.

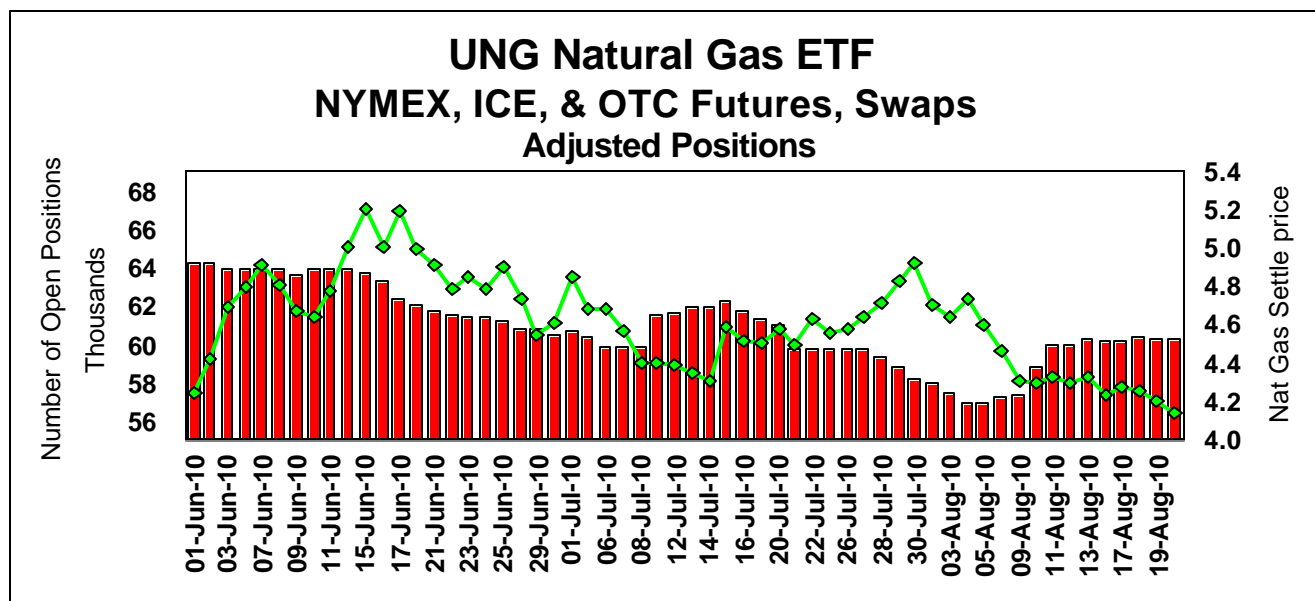
Gazprom said on Friday that it has started a new round of talks with Ukraine's Naftogaz on creating a joint venture. Gazprom said the firms may create a joint venture before exploring a full-blown merger.

Gazprom meanwhile denied western European press reports that it is holding talks on price reductions for European customers.

A spokeswoman for the Belgian gas network operator Fluxys confirmed this morning that maintenance work has begun on the Zeepipe gas pipeline from Norway to Belgium on Friday morning. The work is expected to last about a week. She declined to say what the impact would be on gas flows. But trade sources reported that gas flows scheduled for Saturday via the IUK interconnector to Belgium were expected to be up 44% from levels recorded last weekend.



Canada's National Energy Board today said it looks for natural gas markets in the United States and Canada will continue to be driven largely by weather fluctuations over the next 6-8 weeks as temperatures will dictate demand and ultimately prices. The group though noted that aside from weather demand, growth of industrial activity in the last two months "has also been significant factor in increasing demand". They noted improvements in the manufacturing sectors, particularly for the



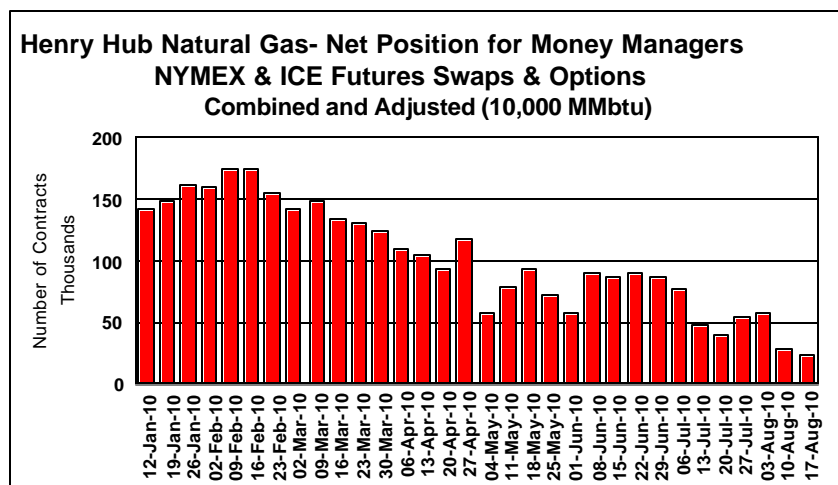
production of ethanol and ammonia have raised July industrial demand above last year's levels. The NEB also noted that gas prices especially in the eastern U.S. remain competitive to coal, causing coal displacement in electric generation and furthering to help support gas prices. The NEB noted that drilling activity in Canada ramped up in June and July, as spring breakup ended, putting June and July activity significantly higher than the same months of last year, though still short of the summer of 2008. However almost all of the current increase in Canadian drilling activity is due to oil drilling rather than gas drilling, since oil prices are about three times higher than natural gas prices on an energy equivalent basis.

PIPELINE MAINTENANCE

Gulf South said the maintenance work at Index 11, along the Longview Palestine 8-inch line has been completed.

PIPELINE RESTRICTIONS

Southern Natural Gas said it has been given approval by regulators to return the maximum operating pressure of the Gate 6 Platform upstream of Toca Compressor Station in south Louisiana to normal, following an incident in August 2007 that shut the segment and then later forced the company to operate the pipeline under pressure restrictions. The pressure increase is scheduled to occur on September 1-3.



Tennessee Gas Pipeline said it would accept nomination increases to 106,000 Dtm at Rivervale for today.

FGT said today that it has issued an overage alert day with a 5% tolerance due to high temperatures expected for its service area.

ELECTRIC MARKET NEWS

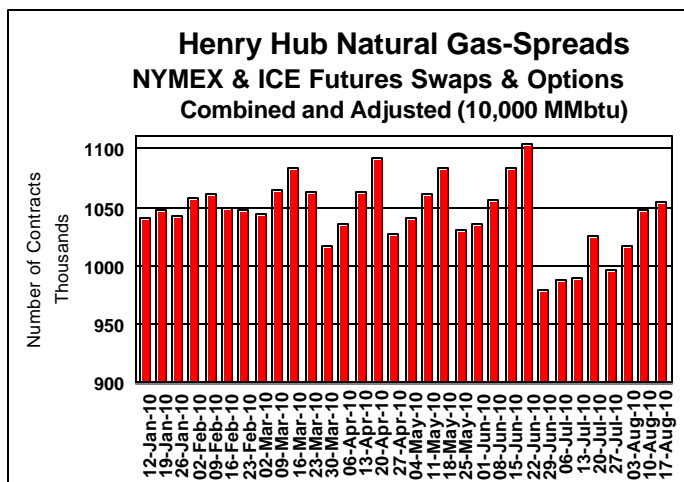
The California Energy Commission siting committee on Thursday recommended approval for NextEra

Energy's planned 250 Mw Genesis solar thermal power project in Riverside County. The committee noted that while the project would "have significant impacts" on the environment it still would recommend the approval of the project because the benefits override those impacts. If gaining final approval the company could start construction in the fourth quarter of this year with commercial operations beginning in the second quarter of 2013.

Genscape reported that U.S. coal use fell 2% this week from the prior week and was equal to consumption in the same week last year.

MARKET COMMENTARY

As it was not a surprise to anyone, the volume in the natural gas market was extremely light today, being a late summer Friday trading session. The trading range for the day was also not only the smallest of the summer for the spot contract but the smallest since April 22, 2009. The market though continued to erode lower as no tropical



threats appeared to be on the horizon as well as the summer cooling season continues to wind down. While some bulls may have found this afternoon a little comfort in the Baker Hughes report that showed the number of drilling rigs searching for natural gas did back off from the recent seven week high, its appears to be offset by the news that the number of horizontal rigs working to exploit shale gas reserves continued to increase growing by another 10 on the week reaching 895 rigs another new all time high.

We continue to look for this market to grind lower and look to challenge the \$4.00 price level once again. We see minor support starting on Monday at \$4.109 followed by \$4.066 and \$4.024. More significant support we see at \$3.986 and \$3.855. Minor resistance we see at \$4.16, \$4.202 and \$4.228, but with more significant resistance points of \$4.375, \$4.452, \$4.558 and \$4.664.

This afternoon's Commitment of Traders Report shows that commodity funds continue to reduce their overall net length in the Henry Hub futures, options and swaps on a combined and adjusted basis on ICE and NYMEX, moving lower for the second straight week and to its lowest level this year. Meanwhile this segment of reportable traders have rebuilt their spread position to a level that has not been seen since the forced liquidation of several large natural gas hedge funds earlier this summer.

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